

THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

DDI# 2059-82
11 March 1982

National Intelligence Council

MEMORANDUM FOR: Chairman, National Intelligence Council

FROM : MG Edward B. Atkeson, USA
NIO for General Purpose Forces

SUBJECT : Implications of the Oil Price Decline

1. You requested comments on your 9 March 1982 draft, subject as above.

2. The paper appears to be well reasoned as far as it goes. Perhaps you intended to confine your analysis to the short range market impact. If so, you may wish to modify the title. Otherwise, I believe there is a much broader array of political and security implications which ought to be addressed. The oil glut does not appear to be a simple market fluctuation that will disappear tomorrow. The world has shifted gears over the last decade to accommodate itself to energy shortage. The glut is a result of that regearing, together with recession; itself a result of energy-shortage-fed inflation.

3. Since 1973 we have seen oil prices rise twenty fold before they began to slip. In addition, we have felt the impact of the "oil weapon" in the hands of the Arabs. These occurrences have been so devastating upon our economy and upon the national psyche that both have undergone fundamental reorientation. In the last decade we have:

- Abandoned big American automobiles in favor of cheaper fuel efficient imports, pushing a major industry to the edge of bankruptcy.
- Reoriented our economy toward energy conservation and wider use of alternative fuels.
- Established a Department of Energy.
- Reoriented our national security strategy to identify access to Middle East oil as a "vital interest" (now identified in Defense Guidance as more important than the defense of Japan!).

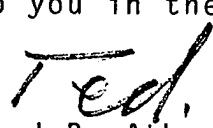
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- Created an RDJTF (with a principal mission of preparedness for fighting Russians for the Persian Gulf oil--to include a capability for employing nuclear weapons).
- Sought to modify the NATO terms of reference to induce European involvement in Persian Gulf security.
- Etc., etc.

4. The oil price decline runs counter to the principal thrust inherent in all of these actions. If it persists, the impact can be enormously destabilizing, and it may be another decade before we can come to terms with all of the ramifications. Among the results we potentially face are:

- Reversal of the drive toward conservation and alternative energy shortages and return to the "fat cat" life of a consumer economy.
- Trouble in the U.S. petroleum, coal and nuclear industries.
- Prolonged strategic vulnerability through dependence on imported oil.
- Extended orientation of the military services toward the Middle East at the expense of our capabilities for defense of Europe and Japan.
- Greater risk of political instability in oil exporting countries.

5. The subject is a fascinating one and one which merits deeper investigation and "war gaming" than has yet been undertaken. If I can be of any help to you in the matter, please let me know.


Edward B. Atkeson

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